DOING BUSINESS IN

SPAIN

Contents

INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in nearly 100 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Spain has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current in April 2026

We look forward to helping you do business in Spain.

BUSINESS ENVIRONMENT

THE SPANISH CONSTITUTION AND GOVERNMENT

Under the 1978 Constitution, Spain is a parliamentary monarchy.

The king is the head of the state and monitors the functioning of the democratic institutions in accordance with the constitution.

The country is governed by a bicameral parliament known as the *Cortes*. This comprises a Congress of Deputies (*Congreso de los Diputados*) elected every four years by universal suffrage and a Senate (*Senado*) of directly elected representatives from the provinces and regions.

Spain has 17 autonomous regions and 2 autonomous cities, with a total of 50 provinces. The autonomous regions or communities share in the centrally collected tax revenues and directly collect certain taxes that are reserved for their use.

THE DOMESTIC MARKET

Population

As of January 2026, Spain has approximately **49.6 million inhabitants**, continuing a strong growth trend driven largely by immigration.

Population growth is currently **moderate** (around +0.1%–0.3% annually), significantly lower than previously stated.

Área

Spain is 506,013 square kilometres in size, including the Balearic and Canary Islands, and Ceuta and Melilla in North Africa.

Population density

Spain has a population density of approximately **96–98** inhabitants per square kilometre.

Currency

The currency of Spain is the euro (EUR).

Language

Spanish is the official language of the state. In certain autonomous regions, it is used jointly with other official languages.

THE ECONOMY

The Spanish economy grew by approximately **2.8%–2.9% in 2025**, outperforming most Eurozone economies and confirming its position as one of the fastest-growing large economies in Europe. Growth was driven mainly by strong domestic demand, particularly private consumption, supported by rising purchasing power and a resilient labour market. Investment also contributed positively, while external demand remained weaker due to the slowdown in key European partners.

Inflation moderated but remained slightly elevated, averaging around **2.6%–2.9%** in 2025, reflecting lingering price pressures in services and wages despite lower energy costs.

The labour market showed notable strength. Spain led job creation in Europe, and the unemployment rate fell to around **9.8%–10%,** the lowest level in over a decade, although still above the EU average.

Overall, Spain maintained a strong and resilient economic profile in 2025, supported by domestic consumption, tourism, immigration-driven labour force growth, and the ongoing impact of EU recovery funds.

CURRENCY

In 2025, the **legal interest rate** in Spain remained at **3.25%**, unchanged from 2024 after being raised from 3% for the first time in several years.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

In 2025, Spain maintained a current account surplus of around **2.5%–3% of GDP**, consolidating one of the strongest external positions among major Eurozone economies.

This performance was supported primarily by record tourism revenues, which continued to act as a key surplus driver, alongside a solid balance in non-energy goods and services. The energy deficit narrowed further compared to previous years, thanks to lower energy prices and improved diversification of supply.

These positive contributions more than offset Spain's structural deficits in primary income (notably profit repatriation by foreign investors) and secondary income transfers.

FINANCIAL INSTITUTIONS

Spain's financial system is dominated by large commercial banks such as Banco Santander, BBVA and CaixaBank.

Traditional **savings banks,** have mostly disappeared or been absorbed into these groups, with their social role now handled by foundations.

Alongside them, credit cooperatives and a growing number of digital banks and fintech companies are increasing competition and accelerating the shift toward online financial services.

Overall, the sector is now more concentrated, digital, and resilient, though facing ongoing pressure from regulation and new entrants.

STOCK MARKET

The Bolsa de Madrid is Spain's main securities market. Together with Barcelona, Bilbao and Valencia, it is part of Bolsas y Mercados Españoles (BME), owned by SIX Group since 2020. Trading is fully electronic through the SIBE platform, which integrates all Spanish exchanges into a single market. The benchmark index is the IBEX 35, made up of the country's most liquid listed companies.

In addition to the main market, Spain has developed alternative platforms such as BME Growth (for high-growth SMEs) and MARF (for corporate fixed income), aimed at improving access to financing for smaller companies.

EDUCATION – PRIMARY AND SECONDARY

In Spain, education is compulsory and free between ages 6 and 16, covering primary (6–12) and lower secondary education (12–16).

After this stage, students can either enter the labour market or continue with post-compulsory education, choosing between the academic track (Bachillerato, 16–18) or Vocational Education and Training (VET) programs, which have gained relevance in recent years.

The system is coordinated by the Ministry of Education of Spain, while autonomous communities manage key aspects such as curriculum development and school administration.

In recent years, education policy has focused on digital skills, foreign languages, and inclusion, alongside efforts to reduce early school leaving. Although dropout rates have declined significantly, they still remain above the EU average.

TERTIARY EDUCATION

Spain's tertiary education system is composed of universities, higher vocational training, and specialized institutions. Universities, both public and private, offer undergraduate (Grado), master's, and doctoral programs aligned with the European Higher Education Area (EHEA) framework, usually structured as 4+1+3 years. Public universities remain the majority, but private institutions and international campuses are gaining relevance. In addition, higher vocational training (Formación Profesional de Grado Superior) provides an increasingly attractive alternative to university, with strong links to the labour market and high employability rates. Recent reforms have focused on fostering internationalization, digital transformation, and research excellence, while also addressing challenges such as youth unemployment and the need to align graduate skills with labour market demands.

HEALTH CARE SYSTEM

Spain has a universal public health care system, the Sistema Nacional de Salud (SNS), which provides free access to essential medical services for all residents, funded mainly through taxation.

Health care is highly decentralized, with the 17 autonomous communities responsible for managing hospitals and primary care, while the Ministry of Health of Spain ensures coordination and overall policy.

Alongside the public system, the private health care sector continues to grow, with around 20%–25% of the population holding private insurance, mainly to avoid waiting times and access additional services.
Spain's system remains among the strongest in Europe, with high life expectancy and a solid primary care network. However, it faces ongoing challenges, including long waiting lists, regional disparities, staff shortages, and the need for further digitalisation and investment.

COMMUNICATIONS

Spain has a highly developed and diversified communications infrastructure, ranking among Europe's leaders in connectivity. Fiber-optic broadband coverage exceeds 90–95% of households, one of the highest rates in the EU.
The country has also made strong progress in 5G deployment, with coverage well established in major urban areas and expanding steadily nationwide.
Mobile penetration is above 100%, reflecting widespread multi-device usage, while internet adoption is near universal among younger generations and very high overall.
Spain is well integrated into global networks through submarine cables and satellite systems, reinforcing its role as a digital gateway between Europe, Africa and Latin America.
The media landscape combines traditional channels with a fast-growing digital ecosystem, including streaming and online platforms.
Despite these strengths, challenges remain in reducing the urban–rural digital gap and ensuring the affordability of high-speed services.

BANKING AND FINANCIAL SERVICES

Spain's financial sector is led by major groups such as Banco Santander, BBVA, and CaixaBank, alongside other domestic and international institutions. The system is now more consolidated, well-capitalized, and highly digitalized, with some of the highest mobile and online banking adoption rates in Europe. Supervised by the Bank of Spain and the CNMV, the sector combines traditional banking with a growing fintech ecosystem, making it resilient but facing challenges of profitability and rising competition.
In 2025, Spanish banks benefit from higher interest rates supporting margins, but still face structural challenges, including pressure on profitability, regulatory demands, and increasing competition from digital players.

TRANSPORTATION LINKS

Spain has one of the most extensive and modern transportation networks in Europe. Its high-speed rail system, the AVE, is among the largest in the world, connecting major cities such as

Madrid, Barcelona, Valencia and Seville, with ongoing expansion and increasing competition from new rail operators.
The road network is highly developed, with an extensive system of **motorways and highways**, supporting both passenger and freight transport efficiently.
Spain is also a major aviation hub, with airports such as Adolfo Suárez Madrid-Barajas Airport and Barcelona-El Prat Airport among the busiest in Europe.
Public transport in major cities is well developed, with metro systems in Madrid, Barcelona, Bilbao, Seville and Valencia.

LAND AND BUILDING

Spain covers **506,000 km², ** making it the fourth largest country in the European Union. The landscape is diverse, with extensive coastal areas, fertile river valleys, mountain ranges such as the Pyrenees and Sierra Nevada, and wide central plateaus.
Urban development has expanded significantly over the past decades, particularly around Madrid, Barcelona, and coastal regions, while rural areas face depopulation challenges.

HOLIDAYS IN

Spain observes a mix of **national, regional, and local** holidays. National holidays include New Year's Day (1 January), Labour Day (1 May), Assumption Day (15 August), Spain's National Day (12 October), All Saints' Day (1 November), Constitution Day (6 December), and Christmas (25 December).
In addition, Easter (Semana Santa) is widely celebrated with processions and traditions, though the specific days may vary by region.
Each autonomous community and city also has its own public holidays, such as St. George's Day in Catalonia, San Isidro in Madrid, or Las Fallas in Valencia, reflecting Spain's cultural diversity.

FOREIGN INVESTMENT

Spain continues to consolidate its role as both a major destination and source of foreign direct investment (FDI). In 2024–2025, inflows remained stable at around **€25–30 billion annually,** broadly in line with the average of recent years and confirming sustained investor confidence.
Investment remains concentrated in services (around 50–55%) and industry (around 35–40%), reflecting the country's diversified economic structure and competitive positioning in key sectors. The United States continues to be the leading investor, followed by major European partners such as the United Kingdom, Germany and France, highlighting Spain's strong integration into global capital flows.

Spain also remains one of Europe's top destinations for greenfield investment projects, particularly in renewable energy, data centres, technology, and advanced services, with sustained high levels of project activity and job creation.

Overall, **FDI inflows represent roughly 1.8%–2.0% of GDP**, reinforcing Spain's position as a resilient and attractive investment hub within Europe, especially in sect

SETTING UP A BUSINESS

Depending on the scale and requirements of their activities, foreign investors have different alternatives when setting up a business in Spain. The most popular option is to incorporate a limited company, with separate legal personality for the newly created entity, and limited liability of their shareholders for the company´s debts. There are however other possibilities that could help you establishing your business in Spain, such as Temporary Joint Ventures (UTEs), Economic interest groupings (EIG), Branches or representative offices. We explain below the most common structures to start your business in Spain:

SELF-EMPLOYED WORKER (TRABAJADOR AUTÓNOMO).

Operating as a self-employed worker (trabajador autónomo) only requires registration with the tax office and social security, but there is no limited liability (only under very restricted conditions it is possible to exempt certain assets from this general liability).

REPRESENTATIVE OFFICE.

For foreign companies willing to carry out market prospection, advertising, or local instrumental support to the non-resident Company, but without having any economic activity in Spain, the representative office would be a good fit.

This structure allows to have a fixed place in Spain and hire employees but must comply with certain requirements to avoid being considered as a permanent establishment for tax purposes.

The first step is for the non-resident Company to obtain a Spanish tax identification number (NIF). For this it is necessary to provide an original authenticated certificate of the Registry where the non-resident Company is incorporated and prepare the specific tax forms (036).

For non-EU Companies to obtain their NIF they would also require the appointment of a tax representative resident in Spain. The representative office does not have a management body nor separate legal personality, so all the contracts shall be directly signed by the foreign Company.

If the representative office has employee’s Spanish legislation will apply, and the non-resident Company will also require a social security number to comply with labour obligations regarding social security contributions and employees´ income tax withholdings.

TEMPORARY JOINT VENTURE (UTE) AND ECONOMIC INTEREST GROUPINGS (EIG)

Created to carry out specific projects or services, the Temporary Joint Ventures are temporary business associations that allow several companies to operate together. They do not have a separate legal personality but enable the members to share risks and costs and combine resources.

The creation of a UTE requires the signature of a Deed with a Notary reflecting the obligations and contributions by each party, as well as the distributions of benefits. They have similar accounting and tax compliance obligations as limited companies, and they require registration with the Spanish tax authorities for the application of their special tax regime. The maximum term of a UTE is **25 years**.

Economic interest groupings (EIG) also serve to collabourate between its members, but they have separate legal personality for an indefinite time, the members are only subsidiarily liable, and their activities are accessory to those of their members (For example providing centralized services for all of them).

SILENT PARTNERSHIP AGREEMENT (CUENTA EN PARTICIPACIÓN)

These entities are used for the contribution of an investor (silent partner) to a business in exchange of a variable share in the profits and losses of the Company. Liability of the investor is limited to this contribution. The silent partnership contract creates a separate profit-loss partnership between the Company and the investor, without requiring any specific formalities. In practice the parties normally sign a Notary Deed as evidence to third parties of the existence of the agreement.

BRANCHES / SUCURSALES

Creating a Branch in Spain does not create an entity with separate legal personality, but it is considered as a permanent establishment in Spain and has a certain degree of independence. The foreign parent company is therefore liable for all its obligations and debts.

The Branch must keep its own accounting, submit financial statements and corporate tax every year, and needs to appoint a local representative of the Branch in Spain. To set-up a Branch in Spain it is necessary to previously pass a resolution by the competent body of the parent company agreeing to form a branch in Spain and to obtain a Tax Identification Number (NIF) of the parent Company. The Deed for creating the branch should be executed with a Spanish Notary and registered at the Commercial Registry.

The Branch will conduct its economic activities directly and will be able to bill its clients independently. The accounts of a branch are part of the company's accounts and that, although the permanent establishments should submit their annual accounts in Spain, a branch does not limit its liability to the assets assigned to the branch, but to all company assets.

The Spanish branch of a foreign company is a permanent establishment in Spain for tax purposes and is therefore required to keep accounts in accordance with the Spanish accounting principles and statutory requirements. This includes the obligation to file annual accounts to the Commercial Registry and an annual corporation income tax return for the branch as a permanent establishment in Spain.

PUBLIC LIMITED COMPANY (SOCIEDAD ANÓNIMA) AND PRIVATE LIMITED LIABILITY COMPANY (SOCIEDAD LIMITADA)

These types of Companies are the preferred option for most foreign investors in Spain. There are two main types:

- Sociedad Limitada (S.L.) or Private limited liabity company.
- Sociedad Anónima (S.A) or Public Limited Company.

Sociedad Limitada prevails as the most popular option, with up to 97% of the Companies incorporated in Spain in 2025. While Sociedad Limitada is suitable for Small to Medium Sized entities, Sociedad Anónima on the other hand is normally reserved for larger corporations, those in regulated sectors, and companies willing to raise capital in the stock market. Below are some of the main differences between both of them:

Share Capital

S.L. May be incorporated with a minimum share capital of three thousand (3,000) euros, which must be paid up upon incorporation.

S.A. Minimum share capital of 60,000 euros, of which a minimum of 25% must be paid up upon incorporation. It requires a report from an independent expert for any non-monetary contribution.

Transfers of shares

S.L. Unless otherwise provided by the company‘s bylaws, the shares can only be transferred freely to the partner´s family members or other partners. Other partners hold a right of pre-emptive acquisition.

S.A. The shares can be transferred freely. Spanish Companies Act establishes important limitations to restrict the transfers of shares in the Company bylaws. The shares may be marketable securities.

General meeting

S.L. As a general rule, general meetings must be summoned with a prior notice of fifteen days. Resolutions are passed by simple majority of valid votes provided they represent at least one-third of the voting rights. As a general rule, the right to attend shareholders' meetings cannot be restricted.

S.A. General meetings must be summoned with a prior notice of one month. At first call there is a minimum attendance quorum: 25% of the issued share capital with voting rights. The bylaws may require a minimum percentage of shares to attend the meetings.

Management body

S.L. Directors may be appointed for an indefinite term. If the management body is a Board of Directors it should have a minimum of 3 members, and a maximum of 12 members.

S.A. Directors have a maximum term of 6 years, with possibility of reelection. There is a minimum of three members required for the Board of Directors, with no maximum limit.

The incorporation of a Limited Company in Spain requires the following steps:

- Obtain a Foreign identification number (NIE) for all foreign individual Directors or individual shareholders of the Company.
- To set-up a subsidiary in Spain of a foreign Company it is required to obtain previously the Tax Identification Number (NIF) of the parent Company. At this stage it is necessary to provide a Certificate from the Companies registry of the foreign Company, and obtain an appointment at the Spanish tax office to submit the required forms and the documents legalised (apostille) and sworn translated.
- Clearance of the Company name at the Central Commercial Registry.
- Contributions in cash to the share capital should be transferred to a `Company under incorporation´ bank account. It is also possible to make non-cash contributions of different types of assets. For the Limited Companies (SL) it may not be necessary to prove the contributions have been made when the Notary Deed includes a statement by the shareholders, whereby they assume joint liability (for the amount of such minimum contributions) towards creditors and the Company.
- The Limited Company is incorporated before a Spanish public notary. The deed will include the Company Bylaws. The minimum information requirements to be reflected in the company formation Deed include the details of the shareholders, registered office in Spain, activity of the company, managing body, capital structure, accounting year-end and term.
- Submit a declaration of Foreign investment to the Spanish Ministry of Industry and Commerce.
- Declaration of transfer tax, fully exempt. No tax is actually paid.
- Registration of the Notary Deed at the Companies Registry.
- Obtain definitive Company tax number (NIF). The obtention of an EU VAT number in Spain is normally subject to the verification by the tax office that the Company actually complies with certain additional requirements.

Although all the other steps can be completed with a Power of attorney, the opening of the Company bank account normally requires the Company director to meet in person with the bank officers to comply with the Spanish anti-money laundering Act, as well as providing a Deed declaring the beneficial owner of the Company (Individuals utimately controlling, directly or indirectly the Company, either by owning more than 25% of the share capital of the Company, or as members of the Management Body).

UHY Fay & Co is an entrepreneur services point (PAE). For simple incorporations, with individual shareholders and directors, we prepare all the required documents through an official online platform (CIRCE) shared with the Notaries, the tax office, and the Companies Registry, which accelerates the registration process (shortening it from 2 weeks to 1-2 days) and reduces incorporation costs (Notary and Registry fees).

LABOUR

Employment in Spain is legally regulated through general rules and collective bargaining agreements which vary by sector.

The social security system is obligatory in Spain and provides cover for all situations from work accidents to retirement.

The principal characteristics of employment and social security are summarised in the following section.

EMPLOYMENT CONTRACTS

Employment contracts must be in writing compulsorily in most of cases.

The employment of people that are not registered at the Social Security Office and do not have a written contract can result in serious consequences for the employer, including heavy fines in some cases.

Special care should be taken in the employment of foreigners, particularly those from outside the EU, by ensuring that all necessary documentation is in order prior to signing the contract.

Personnel costs are high compared with net take home pay, due to compulsory extra pay and high employer's contributions to social security. Therefore, total wage costs can easily be underestimated. In all cases, it is essential to be guided by professionals specialising in this field.

TRIAL PERIOD OF EMPLOYMENT

Trial periods are periods during which the working relationship can be broken without the obligation of paying a compensation. Trial periods are normally established in collective bargaining agreements, but general regulation establishes the following trial periods:

- Graduate employees – maximum six months.
- Other employees – maximum two months, three months in companies with less than 25 employees.
- Contract to give experience – maximum one month unless otherwise stated in the collective bargaining agreement.
- Apprenticeship – cannot be set trial period.
- Temporary contract– maximum one month unless otherwise stated in the collective bargaining agreement.

TYPES OF CONTRACTS

Employment contracts for an indefinite term are officially encouraged by incentives that may vary between regions, depending on the activity of the company and the situation of the employee. The company can obtain grants/subsidies for the social security in certain cases.

There are different types of temporary contracts for the different needs of employers. The cause of temporary contracts must be clearly specified in the contract as the employment contract is presumed to be for an indefinite term. The most commonly used ones are as follows:

- To deal with an accumulation of orders – the contract in the case of for unforeseeable reasons can be for a maximum of six months in a twelve-month period. This can be modified by collective bargaining agreement. In the case of foreseeable reason for a short duration can be for a maximum of 90 days per year.
- To replace employees on temporary leave of absence with the right to return to their jobs.
- To give work experience to qualified persons within three years after finishing their studies (five years is the person is disabled). The salary must be established in the collective bargaining agreement or, failing that, that of the professional group and pay level corresponding to the functions performed. The term of the contract must be between six months and one year.
- Apprenticeship – for unqualified workers, in general there is no age limit, with a reduction in the working day of 35% during the first year of the contract and 15% during the second year of the contract and salary must be established in the collective bargaining agreement that cannot be lower of the 60% first year and 75% second year of the professional group and pay level corresponding to the functions performed. The term of the contract must be between three months and two years.

SOCIAL SECURITY

All employees and self-employees must be covered by social security. Contributions are compulsory.

Self-employed persons are responsible for the payment of their own contributions.

An employer is responsible for paying the contribution of its employees to the Social Security, withholding the corresponding quota at the time of paying their salaries. On top of the above, the employer pays its own contribution to the social security system, being approximately 32% of the employee’s gross payslip. The aggregation of both contributions must be included in the official form to settle the employer’s payment. The form must be submitted before the end of the following month.

TAXATION

The Spanish state levies taxes on personal income and wealth, corporate profits, value added goods/services, transfers of goods and services among non-trading taxpayers, estates, and gifts.

Some of these taxes are managed and collected by the Central Government and others by the Autonomous Regions. In addition, Local Authorities levy taxes on property, increase of value of urban land, construction works and business activities, though the latter only applies to large companies.

BASIS OF TAXATION

Liability to taxation is determined by the residency of companies or individuals, the location of assets and the source of income.

Residents of Spain are taxed on their global income, whereas non-residents are generally only subject to taxation on Spanish sourced income.

Foreign income is fully taxable, but a credit for foreign tax paid or unilateral relief may be given in accordance with Domestic Law, Double Taxation Agreements and EU Directives.

An individual is considered resident for the entire year if he/she spends over 183 days in a calendar year in Spain or if the main core their activities/economic interests is located in Spain. Spanish nationals that change their fiscal residence to tax havens will be considered fiscal residents in Spain for the year of departure and the following four tax periods.

Corporations, whose effective head office is in Spain, can be deemed residents. Non-resident corporations are only subject to taxation on the income arising from business carried out in Spain or through a permanent establishment in Spain. There are some pass-through entities and partnerships where profits are taxed in the sphere of the shareholders instead of the entity.

The fiscal year of a company cannot exceed 12 months, and any reduced period resulting from a change in the year-end will be considered a separate tax year.

CORPORATE INCOME TAX

The general corporate tax rate in Spain is currently 25%.

There is a reduced tax rate of 23% and 15%. The latter is applicable to new entities, provided they are considered trading and subject to certain requirements. This reduced tax rate is applicable for the first 2 years that the company makes profits.

Additionally, there is a reduced tax rate for entities that, in the year prior, have a net amount of turnover under 1 million. This reduced tax rate applies:

- For the first 50.000 euros of the taxable rate, a tax rate of 19%.
- For the remaining taxable base, a tax rate of 21%.

There are a number of tax credits and reliefs that can often reduce the overall tax liability, provided certain conditions are met:

- 60% reduction applicable to certain royalty income,
- 20% reduction on undistributed profits,
- 25%-30% tax credit on film investments,
- 25%-42% tax credit on R&D investments,
- 12% tax credit on technological innovation investments,
- Dividends and capital gains derived from the sale of shares (of resident and non-resident companies) are 95% exempt.

Exemptions and other tax credits to avoid double taxation on foreign source income (dividends, capital gains, royalties, etc.) can be found in accordance with EU Directives and International Double Taxation Agreements.

Financial expenses are deductible with certain limitations, as well as fixed assets' depreciation.

Tax losses can be indefinitely carried forward and can offset up to 70% of net taxable profits, with at least one million euros allowed yearly. Medium and large-sized companies (over 20 million euros turnover) have more astringent limits.

Corporate Tax is payable within 25 days after the end of the six-month period following the year's end. Advance payments on account of the yearly tax liability are payable three times a year as a percentage of the last Corporate Income Tax liability. Alternatively, at the taxpayer's request, and an obligation for taxpayers with over 6 million euros turnover, this is calculated as a percentage of the current year's net profits.

SPANISH INTERNATIONAL HOLDING COMPANIES (ETVES)

Since the 1st of January 1996, Spain joined countries that had already included international holding companies in their tax legislation, known as ETVEs in Spain.

Spanish international holding companies are not taxed on dividends or profits allocated from foreign subsidiaries, as well as for capital gains derived from the transfer of their shareholdings in foreign subsidiaries. For this to apply, the shareholding needs to represent at least 5% of the share capital in the subsidiary and be held for at least one year.

The exemption does not apply for subsidiaries residing in tax havens or subject to a nominal corporate income tax rate below 10%, unless the relevant country has a Double Tax Treaty subscribed with Spain; also, when a participation in a non-trading company is transferred.

The main advantage the ETVE regime provides is that, unlike other companies, a full exemption is granted for distributions of profits through dividends to their non-resident shareholders, provided they are not residents in a tax haven.

Any company can become an ETVE provided that: (i) its corporate object includes managing the participation in its foreign subsidiaries, (ii) it has the required means to manage said participation and, (iii) the regime is duly applied for to the tax authorities.

INDIVIDUAL INCOME TAX

The total income of the individual taxpayer resident in Spain is the base of taxation, with very limited expenses allowed in general.

There is a general allowance per taxpayer of EUR 5,550. There are further reductions of:

- EUR 1,150 when the taxpayer is over 65.
- EUR 1,400 when the taxpayer is over 75.
- Between EUR 3,000 - 9,000 on the taxable base for disabled taxpayers, depending on their level of disability.

Likewise, further reductions are allowed for children under 25 and/or parents over 65 living with the taxpayer.

Salaries, interests, dividends, business profits and capital gains are considered taxable income. Filing the return is not an obligation when the taxpayer’s annual salary is below the threshold of EUR 22,000 and the aggregation of interests and dividends in the year does not exceed EUR

1,600. The taxpayer may opt for filing the return to obtain the refund of taxes withheld or prepayments made during the year.

Taxable income is divided into the General Base and the Savings' Base, the latter encompassing capital gains and losses generated from the transfer of the taxpayer's assets, interests, and dividends. The General Base includes all other income, including business income, and is taxable according to the general sliding scale of rates of the tax.

This general scale is progressive, with the minimum tax rate ranging between 19% and 23% and the maximum between 43% and 48%, depending on the autonomous region.

Benefits in kind are generally taxable, with some exceptions for private healthcare insurance paid by the employer as well as training and tuition for employees. Some expenses can be offset against employment income, such as social security contributions and registration fees in professional associations and trade unions.

Net income from business activities is generally assessed following the Corporate Income Tax rules, by offsetting deductible expenses against eligible income.

The Savings' Base is taxed at the following rates:

- 19% on the first EUR 6,000.
- 21% between EUR 6,000 and EUR 50,000.
- 23% between EUR 50,000 and EUR 200,000.
- 27% between EUR 200,000 and EUR 300,000
- 30% on the excess over €300,000

Losses can only be offset against gains included in the same part of the tax base, either the General Base or the Savings' Base. Losses not offset in the same year can be carried forward for four years.

Capital gains from the sale of the primary residence are exempt from taxation, up to a limit, when the proceeds of the sale are reinvested. In addition, capital gains originated by taxpayers over 65 when selling their primary residence are also exempt.

WEALTH TAX AND SOLIDARITY TAX ON LARGE FORTUNES

Wealth Tax levies net wealth of individuals over 700,000€. Residents of Spain are liable to this tax on their global wealth. This tax is managed by the Autonomous Communities, and therefore specific rules are applicable in each of them. Non-resident individuals may also be liable to this Wealth Tax if they hold assets in Spain over 700,000€.

In regions where the Wealth Tax is 100% relieved, the Tax on Large Fortunes may be applicable. This tax levies net wealth of individuals over 3,7M€. This is a temporary tax imposed by the Spanish government on the wealthiest fortunes in Spain to deal with the cost-of-living crisis. This is a central tax which is not ceded to Autonomous Communities, so the allowances and tax rates cannot be modified by the autonomous governments.

The rates range between 1,7% and 3,5%, very similar to those applicable under the Wealth Tax.

To avoid double taxation, the law allows the taxpayer to deduct any Wealth Tax paid in their Autonomous Community from their Solidarity Tax liability.

NON-RESIDENT INCOME TAX

Non-residents are subject in Spain to tax on income and gains originated in Spain.

The general tax rate for income originated by non-residents without a permanent establishment in Spain is 24%, with different rates for specific sources of income.

EU resident taxpayers without a permanent establishment in Spain are subject to a single flat rate of 19% on most sources of income, with deductible expenses allowed.

Interests, dividends and gains obtained in Spain without a permanent establishment are subject to a 19% flat rate. Interests paid to EU resident taxpayers are exempt from taxation in Spain, as well as dividends distributed to EU-resident parent companies under the provision of EU Directives, with certain conditions.

Non-residents taxpayers without a permanent establishment in Spain will bear a 3% withholding tax made by the buyer when selling a property in Spain. If the final tax to pay is below the amount withheld, the difference will be refunded to the taxpayer.

Non-resident property owners without a permanent establishment in Spain are subject to Non-Residents Income Tax on deemed income of 2% of the rateable (cadastral) value (or 1.1 % if the cadastral value has been reviewed in the last ten years) of the property. Then, the general tax rates apply on the deemed income to reach the final tax liability.

Permanent establishments of foreign companies in Spain generally assess their net income following the rules of Corporate Income Tax, as the result of offsetting deductible expenses against eligible income. Some costs from the parent company can be eligible to be offset against income originated by the permanent establishment.

FISCAL REPRESENTATION OF NON-RESIDENT COMPANIES AND INDIVIDUALS

Non-resident persons and companies subject to Income or Wealth Tax must, in certain cases, appoint a fiscal representative.

Failure to do so may result in a fine of EUR 2,000 for non-resident taxpayers subject to Income Tax in Spain or EUR 6,000 for those residents in countries without effective exchange of information with Spain.

TAX DECLARATION ON ASSETS HELD ABROAD

Resident taxpayers must file an annual informative declaration for certain categories of their assets abroad.

After 2013, the Anti-fraud Law obliges resident taxpayers (as well as non-residents with a permanent establishment in Spain) to file an annual informative declaration on assets they hold abroad.

Assets held abroad are assigned, for the purposes of this informative declaration, to one of three categories:

- Bank accounts and deposits.
- Real estate.
- Stock in companies, insurances, and annuities.

The obligation to declare arises when any of the three categories exceeds EUR 50,000. Once filed for the first time, the declaration must be filed in the following years if the balance of a category already declared increases over EUR 20,000 or if the taxpayer no longer owns any of the assets declared.

When the declaration is due, it must be filed within the first quarter of the year.
Apart from this, as from FY 2023 there is a new obligation to report virtual currencies.

This new declaration must be filed through the Form 721 within the first quarter of the year, and failure to do so causes the same fines as not declaring the other assets.

TRANSFER PRICING

Spanish tax legislation requires that transactions carried out between related parties (both domestic and cross-border) must be conducted at arm's length, consistent with the OECD Transfer Pricing Guidelines.

Companies engaged in related-party transactions are subject to transfer pricing documentation requirements, which are distinct from tax filing obligations. The extent of documentation depends on the size of the group and the volume of related-party transactions, and includes:

- Master file and local file (as per OECD standards) for entities that form part of large multinational groups (as per OECD standards).
- Country-by-Country Report (CbCR) for groups with consolidated revenues exceeding EUR 750 million.
- Form 232, an informative return where certain related-party transactions and dealings with tax havens must be disclosed annually (usually in November for calendar-year taxpayers).

Failure to comply with transfer pricing obligations (both documentation and reporting) may trigger significant penalties, in addition to tax adjustments.

OTHER TAXES

VALUE ADDED TAX (VAT)

The VAT rules and regulations are based on the EU 2006/112/CE Directive, which harmonized this tax at an EU level.

The general tax rate is currently 21% with certain basic products and services taxed at reduced 10% and 4% rates. Exports and assimilated transactions are not subject to taxation.

TRANSFER TAX

Transactions for consideration among non-trading taxpayers are taxed by a Transfer Tax. Real estate transactions are taxed at rates ranging from 6% to 10% depending on the Autonomous Community.

Transactions over movable assets, such as cars, vessels, furniture, etc. among non-trading taxpayers are generally taxed at 4%.

The tax is paid by the acquirer of the relevant assets.

Stamp Duty applies on transactions formalized in public documents which must gain access to a Public Registry, unless they are subject to any of the rates above or the Inheritance and Gift Tax.

TAX ON CAPITAL

Incorporation and share capital increases are exempt from Stamp Duty. Under certain requirements, Stamp Duty will also not apply to reorganizations of companies such as mergers, demergers, etc.

The liquidation of a company is subject to a 1% Stamp Duty on its equity value.

INHERITANCE AND GIFT TAX

Inheritance and Gift Tax only applies to individuals, so companies are not subject to this tax. This tax is levied on gifts among individuals and estates.

The tax is assessed based on a sliding scale with a top rate ranging between 34% and 36.5% depending on the Autonomous Region. Full exemption is available for close relatives in some Autonomous Regions.

The final tax liability may be increased after the application of multiplying coefficients depending on the degree of kinship with the deceased person and the pre-existing net assets of the heir.

LOCAL TAX ON THE INCREASE OF VALUE OF THE URBAN LAND (LOCAL 'PLUSVALÍA' TAX)

When a plot or property on urban land is transferred, the Town Hall levies a '*plusvalía*' tax on the increase of value of that land (or the proportional part of the land on which the property is located) since it last changed owners.

The tax base is assessed based on the evolution of the rateable (cadastral) value of the land while tax rates vary from town to town.

The tax is prevented if the taxpayer can prove he made a loss in the transaction.

LOCAL TAX ON PROPERTY

An annual tax ('IBI') based on the rateable (cadastral) value of properties is payable to the local Tax Authorities. Tax rates vary from 0.4% up to 1.30% (for urban property), depending on the municipality.

LOCAL TAX ON BUSINESS ACTIVITIES

An annual tax on business activities is payable to the Municipal Authorities. Tax payable depends on the type of activity, the location, and the population of the town. This tax only applies to companies with a turnover of over EUR 1,000,000, with the first two years being exempt.

ACCOUNTING AND REPORTING

All businesses are required to keep adequate accounting records in accordance with the Code of Commerce and the Spanish General Accounting Plan. All companies registered in the Company Registry are obliged to file a statutory annual account including a balance sheet, profit and loss account and notes to the financial statements. Additionally, for those companies that are obliged to file full accounts (not abridged), it is mandatory to include a statement of cash flows accounts, statement of changes in the net equity and a management's report.

Small companies may file abridged accounts providing they do not exceed two of the three following limits for two consecutive years:

Total assets of EUR 4,000,000

Net turnover of EUR 8,000,000

Average number of employees 50

All companies exceeding the above limits (two of three during two consecutive years) are required to file full annual accounts.

For companies that are obliged to an external audit, a copy of the audit report must be included in the reporting pack. Companies may be obliged to have an annual external audit providing they exceed two of the three following limits for two consecutive years:

Total assets of EUR 2,850,000

Net turnover of EUR 5,700,000

Average number of employees 50

Audit is a regulated activity in Spain. The audit Law of 2015 restricts the audit of accounts to suitably qualified persons or firms registered in the Spanish Official Register of Auditors of Accounts (ROAC), kept by the Spanish Institute of Accounting and Auditing (ICAC). Persons or firms who are not qualified so cannot legally act as independent auditors of accounts in Spain, no matter what other Spanish or foreign qualifications they may have.

Minimum professional indemnity insurance is obligatory by law. Auditors may practice individually, in a partnership or as a corporation.

The mandatory accounting books that companies must keep are the Journal Book and the Inventory and Annual Accounts Book.

In addition, the mandatory corporate books are: the Minutes Book (shareholders' meetings and management body), the Shareholders' Register (and, where applicable, the Register of Registered Shares), and the Register of Contracts with the Sole Shareholder (for single-member companies).

UHY IN SPAIN

UHY Fay & Co

Spain

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- Facebook: https://www.facebook.com/UHYFayCo
- LinkedIn: https://www.linkedin.com/company/uhy-fay-&-co
- X: https://twitter.com/uhyfayco
- YouTube: https://www.youtube.com/user/UHYcanal

Year established:	1983
PCAOB revistered?	Yes
Number of partners:	10
Total staff:	95

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BRIEF DESCRIPTION OF FIRM

UHY Fay & Co was founded with the vocation of offering the highest quality service and the commitment of making our clients succeed by delivering integral advisory services that offer the best solution to each case and the objective of establishing long-term relationships with our clients as their trusted advisors.

Currently, UHY Fay & Co is amongst the top 20 leading firms providing professional services in Spain with a wide structure of offices spread over the major cities of the country.

We offer a full set of services that range from compliance of tax, legal, ESG and accounting requirements to highly specialised ad hoc projects with the added value that provides the coordination of the different areas of expertise.

Over the past 40 years the firm has helped a large number of foreign businesses to establish in Spain and many Spanish businesses in their international expansion.

SPECIALIST SERVICE AREAS

Internationalization of businesses Corporate finance (M&A)
Transfer pricing
International tax
Pre-immigration tax planning
Tax claim & tax litigation
Corporate reorganization
VAT
Forensic accounting
Due diligence
Valuation of Business and Shares
Business outsourcing
Cloud Accounting
Ciber Security
Equality Plans
Social Corporate Responsibility
Compliance
Business services
Labour

PRINCIPAL OPERATING SECTORS

Automotive
Chemical & Pharmaceutical
Energy & Environmental
Family Owned Companies
Financial
Food & Drinks
Industry Manufacturing
Media & Entertainment
Real Estate & Construction
Retail Distribution
Software
Telecommunications
Tourism
Transport
Non Profit Organizations

LANGUAGES

Spanish, English, French, German, Russian, Italian.

CURRENT PRINCIPAL CLIENTS

Confidentiality precludes disclosure in this document.

OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

Angola, Brazil, Channel Islands, Denmark, France, Germany, Ireland, Italy, Luxembourg, Malta, Mexico, Morocco, Netherlands, Philippines, Portugal, South Africa, Switzerland, Turkey, UK, United Arab Emirates, US.

BRIEF HISTORY OF FIRM

In 1983, Bernard Fay, a British Chartered Accountant, founded Fay & Co Chartered Accountants with the objective of providing the Spanish professional services market with a multidisciplinary firm. The idea was, and is, to provide clients with integrated services of the highest quality with the added value of our internal coordination of the different disciplines.

The firm decided to join the global network UHY in 1996 with the aim of offering its professional services independently of the geographical area where clients developed their businesses. The UHY network offers our clients over 300 offices in over 100 countries and access to more than 8,500 professionals to help your business compete for overseas or cross-border business effectively and successfully.

Connect to possibility

Let us help you achieve further business success